US Market Wrap - 14th February 2025

Yields and Dollar hit on weak retail sales

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude down, Dollar down
- **REAR VIEW**: Weak US Retail Sales; Mixed US Import/Export Prices; US Treasury Secretary says US can apply maximum economic pressure on Iran; More Russia/Ukraine optimism; Trump said auto tariffs to be in from April 2nd; TSMC receptive to INTC factory deal; DELL to sell AI servers to Musk's xAI; META boosting humanoid robot investment.
- **COMING UP**: **Holiday**: Presidents' Day (Desk Open as usual). **Speakers**: Fed's Harker, Bowman
- **WEEK AHEAD**: Highlights include RBA, RBNZ, FOMC Minutes, PMIs, Canada, UK and Japan inflation. To download the full report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing RBA, RBNZ, FOMC Minutes, PBoC LPR; Reviewing Fed Chair Powell, BoC Minutes. To download the full report, please click here.

MARKET WRAP

Stocks were mixed on Friday with outperformance in the Nasdaq 100 as Communication and Tech names outperformed, while the S&P 500 and Russell 2k were little changed and the Dow underperformed. The Dow was weighed on by retailers (WMT, PG) after a woeful retail sales report in the US. Meanwhile, the Nasdaq was propped up by more gains in Nvidia (NVDA), and Airbnb (ABNB) shares outperformed in the index after strong earnings. T-Notes were bid in response to the weak retail sales report, which appears to show the pre-tariff spend boom has taken a a pause while cold weather and LA fires are also to blame. The report hit the Dollar while antipodes outperformed ahead of the RBA and RBNZ next week. Energy prices were choppy, peaking after comments regarding maximum pressure on Iran from US Treasury Secretary Bessent, who said they want to cut Iran oil exports to 100k BPD. Nonetheless, more optimism regarding Ukraine and Russia peace sent crude lower, settling in the red. Ukraine President Zelensky said he will meet with Russian President Putin when he has a plan with the US. Gold prices sold off heavily, back to under USD 2,900/oz after testing record highs earlier in the session, where a weaker buck, soft US data and falling yields were not enough to support the yellow metal with perhaps profit taking occurring ahead of the long weekend with US President's day on Monday.

US

RETAIL SALES: January Retail Sales were weak, the headline declined by 0.9% M/M, a deeper decline than the expected -0.1%, although the prior was revised up to 0.7% from 0.4%. The core measure, ex autos, declined by 0.4%, despite expectations for a 0.3% gain while the prior was also revised up to 0.7% from 0.4%. Ex autos and gas declined by 0.5%, while the prior was revised up to 0.5% from 0.3%. The disappointing report in January shows the consumer has slowed down its spending in the start of 2025, with the end of 2024 boosted by fears of incoming tariffs. Pantheon Macroeconomics highlights that the pre-tariff sales boom is already fading. Regarding GDP, the control group, a better gauge of consumer spending, was also weak as it fell by 0.8%, well beneath the 0.3% forecast, with the prior revised up to 0.8% from 0.7%. ING notes that cold weather and LA fires certainly played a role in the poor start of 2025 for consumer spending, adding that confusion over tariff timing is also having an impact, although Zelensky did admit he does not think the US has a plan for peace in Ukraine yet, but that Ukraine is ready to move as fast as possible towards real peace. Gold prices

IMPORT/EXPORT PRICES: Import price rose 0.3% in January (exp. 0.4%), the highest rise in nine months, after seeing an upward revision to 0.2% from 0.1% in December. Import fuel prices rose 3.2%, driven by higher prices for petroleum and nat gas, after a 1.7% increase in December. Ex-fuel import price ticked up 0.1% for the third consecutive month in January; Higher prices for nonfuel industrial supplies and materials; capital goods; and foods, feeds, and beverages in January more than offset lower prices for automotive vehicles and consumer goods. Export prices soared 1.3% (exp. 0.3%, rev. 0.5%), the largest monthly rise seen since May 2022. Driving the move higher was higher nonagricultural export prices (+3.5%) which more than offsetted the lower agricultural (-0.2%) export prices.

INDUSTRIAL PRODUCTION: Industrial production rose 0.5% in January, above the expected 0.3%, with the prior revised higher to 1% from 0.9%. Manufacturing output surprisingly dipped 0.1% (exp. +0.1%, prev. 0.5%), which was mainly due to a sharp 5.2% m/m decline in motor vehicle & parts, while capacity utilisation ticked higher to 77.8% from 77.5%. Capital Economics notes the rise in IP is not as good as it looks as it was driven by a weather-related surge in utilities and a further post-strike recovery in aerospace and parts output. Highlighting this, Aerospace & parts manufacturing rose by 6% and Utilities output soared by 7.2%. Ahead, CapEco notes, despite some improvement in recent months, survey-based manufacturing activity indicators remain a little downbeat, and with the post-strike normalisation in aerospace and parts production nearly completed, manufacturing output is likely to remain close to stagnant.

FIXED INCOME

T-NOTE FUTURES (H5) SETTLED 11 TICKS HIGHER AT 109-10

Dire retail sales sees T-Notes rally with market pricing now leaning towards two Fed rate cuts this year . At settlement, 2s -4.8bps at 4.263%, 3s -4.9bps at 4.275%, 5s -5.3bps at 4.333%, 7s -4.7bps at 4.408%, 10s -4.5bps at 4.480%, 20s -3.4bps at 4.756%, 30s -2.7bps at 4.699%.

INFLATION BREAKEVENS: 5yr BEI -2.3bps at 2.655%, 10yr BEI -1.5bps at 2.443%, 30yr BEI -0.9bps at 2.366%.

THE DAY: T-Notes meandered overnight and through the European morning within a tight 108-26-108-31+ range in wake of the Trump tariff announcements on Thursday. Attention then turned to US data with Retail Sales to see how the consumer was faring in the start of 2025, while import and export prices were eyed to see how it would affect PCE due at the end of the month. The highlight was the dismal retail sales, which missed across the board and saw T-Notes shoot higher. The data showed that the strong end of 2024 for the consumer has faded while analysts suggest the consumer has already dialled back pre-tariff spending, while cold weather and LA fires also resulted in the downbeat report. The import and export prices were mixed, with import prices missing estimates but offset by revisions higher while export prices surged. T-Notes went on to hit highs of 109-15+ before paring into settlement. The soft retail sales data saw traders start to price in more rate cuts from the Fed down the curve with now 40bps priced for 2025, implying a 60% probability of a second rate cut this year, vs the

27bps priced post CPI earlier in the week, which implied an 8% probability. Next week highlights include a 20yr bond auction, US S&P Global PMIs and FOMC Minutes.

NEXT WEEK SUPPLY

- US Treasury to sell USD 16bln of 20yr bonds and USD 9bln of 30yr TIPS (as expected) on February 19th and February 20th, respectively; all to settle Feb 28th
- US to sell USD 80bln of 6wk bills, USD 80bln of 13wk bills, USD 70bln of 26wk bills and USD 48bln of 52wk bills on February 18th; all to settle Feb 20th.

STIRS/OPERATIONS:

- Market Implied Fed Rate Cut Pricing: March 1bps (prev. 1bps), May 5bps (prev. 4bps), June 15bps (prev. 11bps), Dec 40bps (prev. 33bps)
- NY Fed RRP op demand at USD 58.8bln (prev. USD 67.8bln) across 22 counterparties (prev. 28)
- SOFR at 4.33% (prev. 4.32%), volumes at USD 2.329tln (prev. 2.313tln).
- EFFR at 4.33% (prev. 4.33%), volumes at USD 94bln (prev. 94bln).

CRUDE

WTI (H5) SETTLED USD 0.55 LOWER AT 70.74/BBL; BRENT (J5) SETTLED USD 0.28 LOWER AT 74.74/BBL

Oil settled in the red as benchmarks edged lower throughout the session on prospects of a peace deal with Russia/Ukraine and easing supply disruptions. Prior to this, WTI and Brent rose to session highs of USD 72.02/bbl and 75.85/bbl, respectively, in wake of of US Treasury Secretary Bessent noting the US can apply maximum economic pressure on Iran, and that the US wants Iran to cut oil exports. However, the upside was short lived amid 'positive' Russia/Ukraine commentary, as Ukrainian President Zelenskiy said he will meet with Russian President Putin when he has a plan with the US, and Zelenskiy also later added that after talking to US VP Vance, it is the first meeting, not the last. On his discussion with President Trump, noted it was good and positive, but he does not think that the US has a plan for peace in Ukraine yet. Elsewhere, headline newsflow was pretty sparse as traders await the long weekend amid Presidents' Day on Monday. For the record, in the weekly Baker Hughes rig count oil rose 1 to 481, natgas rose 1 to 101, leaving the total +2 to 588.

TRUMP ORDERS: As US President Trump signed an executive order creating the Energy Dominance Council, he also signed a commonwealth LNG export license. The President noted that the US has more energy than any other country. He is also working on a pipeline held up by New York to lower energy prices, adding the 625mln acres of offshore that had been banned under Biden, will now be unbanned.

EQUITIES

CLOSES: SPX -0.01% at 6,115, NDX +0.38% at 22,115, DJI -0.37% at 44,545, RUT -0.10% at 2,280.

SECTORS: Technology +0.60%, Communication Services +0.41%, Financials +0.14%, Energy +0.13%, Consumer Discretionary -0.27%, Industrials -0.29%, Materials -0.33%, Real Estate -0.44%, Utilities -0.51%, Health -1.11%, Consumer Staples -1.16%.

EUROPEAN CLOSES: DAX -0.57% at 22,483, Euro Stoxx 50 -0.17% at 5,491, CAC 40 +0.18% at 8,179, AEX +0.00% at 947, IBEX 35 +0.15% at 12,956, PSI +1.04% at 6,654, SMI -1.01% at 12,819, FTSE 100 -0.37% at 8,732, FTSE MIB +0.18% at 37,978

EARNINGS

- **Applied Materials (AMAT):** Weak next quarter revenue guidance amid tighter US export controls on chipmaking tech., while its largest market, China, saw reduced sales.
- **Palo Alto Networks (PANW):** Light FY profit outlook.
- **Twilio (TWLO):** Bottom line missed and gave an underwhelming next quarter outlook.
- **Roku (ROKU):** Major metrics beat as it was driven by robust subscriber growth & strong advertising.
- **Airbnb (ABNB):** EPS and revenue topped but sees slower Q1 growth due to FX headwinds and Easter timing.
- **DraftKings (DKNG):** Profit beat and lifted FY revenue guidance.
- **Moderna (MRNA):** EPS fell short with weak FY revenue outlook.

STOCK SPECIFICS

- **TSMC (TSM)** said to have been receptive to Intel (INTC) factory deal, according to Bloomberg.
- **Meta (META)** reportedly planning a major investment into AI-powered humanoid robots, according to Bloomberg; to hire RealReal CEO to boost sales of AI wearables. In other news, - Meta (META) raised quarterly dividend by 5%.
- **Dell (DELL)** nears deal to sell USD 5bln in AI servers to Musk's xAI, according to Bloomberg; servers are to include Nvidia (NVDA) Blackwell GB200 chips.
- **Nvidia (NVDA)** 13F: Dissolved: **Serve Robotics (SERV)**, **SoundHound AI (SOUN)**; Reduced: **Arm Holdings (ARM)**; New: **Nebius (NBIS); WeRide (WRD).**
- **Bristol-Myers Squibb (BMY)** Phase 3 Relativity-098 trial fails to meet primary endpoint.
- **Apple (AAPL)** and **Alphabet (GOOGL)** will restore TikTok to their app stores on Feb. 14th.
- **Warner Music Group (WMG)** upgraded to 'Buy' from 'Neutral' at Citi believing Spotify's pending launch of a "Supremium" tier may help both Spotify and the labels.
- **PG&E (PCG)** downgraded to 'Underweight' from 'Equal Weight' at Morgan Stanley.
- Ferrero reportedly considering a bid for **WK Kellogg (KLG)**, according to DealReporter.

US FX WRAP

The Dollar was lower on Friday and extended on Thursday's selling pressure amid the soft PCE components within the hot PPI report and non-immediate Trump reciprocal tariffs. Friday, the Buck saw further pressure after a dismal US retail sales report and continued digestion of Trump tariffs. Elsewhere on data, industrial production was slightly better than expected, while import/export prices was mixed. Import prices rose less than forecasted, but export rose much more. President Trump was signing further executive orders, albeit to little market reaction, while Treasury Secretary Bessent spoke plenty about Russia, Ukraine and Iran. Fed wise it was only 2026 voter Logan - said next couple months of inflation data will be pretty important and even if get better data on inflation, should be cautious on rates. If labour market stays strong, better inflation data doesn't necessarily mean Fed can cut. As a reminder it is a long weekend in the US with some closures on Monday amid President's Day.

G10 FX was firmer across the board against the Dollar, with Antipodeans outperforming and also supported by the strength in the Yuan. Attention for the AUD and NZD next week will be on the RBA and RBNZ, respectively, whereby the former is widely seen cutting rates by 25bps to 4.10% and the latter sees money markets price a 72% likelihood of a 50bps cut and a 28% chance of 25bps reduction. AUD/USD saw a high of 0.6367 and NZD/USD a peak of 0.5738. Currency specific newsflow was light, as EUR optimism continues to be spurred by recent trade developments and how they have avoided worst case scenario, so far. However, there is still a ways to go and are not clear, yet. EUR/USD traded between 1.0448-1.0514.

Elsewhere, and while largely playing second-fiddle to the Dollar, SNB Governing Board Member Tschudin said maintaining price stability is the most important task for the SNB, while out of the UK the FT reports that Chancellor Reeves leaves door open to raising UK taxes next month. UK inflation data is the highlight next week.

EMFX was almost exclusively in the green, albeit benefitting from the Buck's weakness as opposed to anything EMFX driven. Final Polish CPI was hotter than expected, while February CNB Minutes noted the main upside inflation risks remain in services and food prices, and downward risk from global factors and the German economy. Some members argued for caution in further easing, entering a "micro-tuning" phase. On the central bank footing, CBR held rates at 21%, as expected, with Governor Nabiullina noting they discussed rate hike and keeping it unchanged, but rate cut was not discussed. On US tariffs, Brazil President Lula stated if US tariffs Brazilian steel, we will react, seek WTO, and potentially tax US products

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newsquawk.com · +44 20 3582 2778 · info@newsquawk.com